

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 L-03 H-02 PA-02 PRS-01 ABF-01 DOE-11
SOE-02 DOEE-00 SSO-00 INT-05 OES-07 /155 W
-----118253 011829Z /42

P R 011744Z FEB 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 2680
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JAN. 25 - 31

SUMMARY: A QUIET WEEK IN BRITAIN. GILTS DECLINE SLOWLY
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AND STERLING HOLDS NERVOUSLY STEADY. THE CONFEDERATION
OF BRITISH INDUSTRY'S LATEST SURVEY REPORTS A GLOOMIER
OUTLOOK FOR U.K. EXPORTS. CHANCELLOR HEALEY CITES THE
NEED FOR IMPROVED INDUSTRIAL PERFORMANCE TO AID U.K.
EXPORTS AND GROWTH OUTSIDE THE INDUSTRIAL SECTOR TO AL-
LEVIATE UNEMPLOYMENT. END SUMMARY

1. CBI QUARTERLY SURVEY RESULTS. IN ITS QUARTERLY TRENDS SURVEY, THE CONFEDERATION OF BRITISH INDUSTRY REPORTS GROWING CONCERN OVER EXPORT PROSPECTS, LITTLE INDICATION OF AN IMMINENT SURGE IN DEMAND AND SOME SATISFACTION ABOUT THE SLOWING OF INFLATION. THE REPORT CHARACTERIZES PRESENT ECONOMIC CONDITIONS AS SLUGGISH WITH WEAK INTERNAL DEMAND AND LESS BUOYANT EXPORT MARKETS. THE RECENT APPRECIATION OF STERLING IS SEEN AS "UNWELCOME" SINCE IT HAS MEANT AN EROSION OF UK PRICE COMPETITIVENESS. CBI STATES THAT IMPROVED PRODUCTIVITY AND CONTINUED WAGE RESTRAINT HAVE BECOME MORE CRUCIAL AS STERLING RISES. IN MORE DETAIL, THE SURVEY INDICATES THAT INVESTMENT INTENTIONS HAVE STRENGTHENED SOMEWHAT. THIS IS RATHER DIFFICULT TO RECONCILE WITH THE FACT THAT 66 PERCENT OF TOTAL RESPONDENTS REPORT THEY ARE OPERATING BELOW CAPACITY. EMPLOYMENT PROSPECTS HAVE DETERIORATED SINCE THE LAST SURVEY WITH JUST 13 PERCENT OF RESPONDENTS EXPECTING TO TAKE ON LABOR IN THE NEXT 4 MONTHS COMPARED WITH 17 PERCENT IN THE PREVIOUS SURVEY. UNIT COSTS AND SELLING PRICES ARE EXPECTED TO REMAIN MORE STABLE OVER THE NEXT FOUR

MONTHS THAN AT ANY TIME SINCE 1973. WEAK DEMAND REMAINS THE MAIN CONSTRAINT TO OUTPUT ALTHOUGH SKILLED LABOR SHORTAGES ARE A CONCERN FOR ABOUT ONE-FIFTH OF RESPONDENTS.

TURNING TO THE OUTLOOK FOR EXPORTS, THERE IS A GROWING SENSE OF PESSIMISM ABOUT THE FUTURE WITH A THIRD OF UNCLASSIFIED

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ALL RESPONDENTS BELIEVING THAT PROSPECTS FOR THE NEXT YEAR ARE DIMMER THAN THEY WERE COMPARED WITH A QUARTER WHO WERE OF THAT OPINION IN THE LAST SURVEY. THIS ATTITUDE IS EXPLAINED TO SOME EXTENT BY THE 63 PERCENT FIGURE FOR THOSE WHO VIEW PRICES RELATIVE TO OVERSEAS COMPETITORS AS THE MAIN FACTOR LIMITING THEIR ABILITY TO OBTAIN EXPORT ORDERS.

2. INDUSTRIAL STRATEGY. IN A WIDE-RANGING ADDRESS TO A GROUP OF SCOTTISH JOURNALISTS, THE CHANCELLOR OF THE EXCHEQUER

- SPOKE OF A NEED FOR COLLECTIVE ACTION BY ALL GOVERNMENTS TO DEAL WITH A "PROLONGED AND DIFFICULT PERIOD OF ADJUSTMENT TO STRUCTURAL CHANGES IN THE NATIONAL AND INTERNATIONAL ECONOMY ..." STEEL

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CEA-01 L-03 H-02 PA-02 PRS-01 ABF-01 DOE-11
SOE-02 DOEE-00 SSO-00 INT-05 OES-07 /155 W
-----118334 011830Z /42

P R 011744Z FEB 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 2681
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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AND SHIPBUILDING WERE CITED AS EXAMPLES OF INDUSTRIES EXHIBITING SUCH STRUCTURAL PROBLEMS.
- SAID THAT NO SOLUTION TO THE ADJUSTMENT PROBLEM WAS POSSIBLE UNLESS NATIONAL GOVERNMENTS "ACCEPT THE RESPONSIBILITY FOR INTERVENING IN THE MARKET- PLACE TO EASE THE STRAINS WHICH INEVITABLY ATTEND THE PROCESS OF ADJUSTMENT." HE SPECIFIED IN PARTICULAR INTERVENTION IN FOREIGN EXCHANGE MARKETS AND COORDINATED ACTION BY ALL COUNTRIES TO NARROW DIVERGENCES IN ECONOMIC PERFORMANCE THAT

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PRODUCE CURRENCY INSTABILITY.
- INDICATED THAT HMG WOULD THEREFORE NEED EMPLOYMENT PROTECTING MEASURES FOR "A LONG TIME TO COME INDEED, A NEW SERIES OF SUCH MEASURES IS IN THE

OFFING.

- EMPHASIZED THE IMPORTANCE OF THE SUCCESS OF THE INDUSTRIAL STRATEGY EXERCISE WITHOUT WHICH THE BENEFITS OF NORTH SEA OIL WOULD BE DISSIPATED.
- NOTED THAT FEASIBLE PRODUCTIVITY INCREASES IN 40 SECTORS COVERED BY THE INDUSTRIAL STRATEGY COULD IMPROVE THE CURRENT ACCOUNT BY 2.5 BILLION POUNDS BY 1980. THIS WOULD PERMIT MACROECONOMIC POLICY TO BE SUFFICIENTLY EXPANSIONARY TO PRODUCE AN INCREASE IN DEMAND SUFFICIENT TO RAISE EMPLOYMENT LEVELS BY 0.5 TO 1.0 MILLION PEOPLE, MAINLY IN THE SERVICES SECTOR.

THE CHANCELLOR'S MESSAGE WAS CONSISTENT WITH PREVIOUS HMG ADVOCACY OF GOVERNMENT INTERVENTION AS THE PRINCIPAL MEANS OF MANAGING THE ADJUSTMENT PROCESS. EQUALLY, HIS OPTIMISM ABOUT THE PRODUCTIVITY GAINS LIKELY FROM THE INDUSTRIAL STRATEGY EXERCISE WAS IN LINE WITH PAST UTTERANCES ON THE SUBJECT, THOUGH SPECIFIC FIGURES, DESCRIBING THE IMPACT ON CURRENT ACCOUNT AND EMPLOYMENT ARE NEW. THE MEDIA AIMED ITS CRITICISM AT THESE OPTIMISTIC FORECASTS NOTING THAT THEY WERE BASED ON AN AGGREGATION OF THE MOST OPTIMISTIC ESTIMATES MADE BY THE VARIOUS SECTOR PARTIES. INTERESTINGLY, THE CHANCELLOR TACITLY ACKNOWLEDGED THAT THE RISE IN EMPLOYMENT RESULTING FROM THE SUCCESS OF THE INDUSTRIAL STRATEGY WOULD BE INDUCED IN OTHER SECTORS, PARTICULARLY PUBLIC AND PRIVATE SERVICES RATHER THAN APPEARING IN THE INDUSTRIAL SECTOR ITSELF.

3. GILTS. AFTER OVER A WEEK'S DECLINE, GILT ISSUES RE-
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COVERED PARTIALLY ON WEDNESDAY. THERE WAS NO SPECIFIC NEWS ITEM WHICH THE MARKET WOULD LINK WITH THE DECLINE, ALTHOUGH SOME MARKET SOURCES INDICATED THAT THE CBI SURVEY HELPED THE MARKET WEDNESDAY BY RELAXING MARKET FEARS OF CROWDING OUT. FOREIGN ACTIVITY IN GILTS HAS NOT BEEN A FACTOR IN THE WEEK'S MOVEMENT, ALTHOUGH PURCHASES, BY GERMANS AND FRENCH IN PARTICULAR ARE CITED.

4. FOREIGN EXCHANGE MARKETS HAD A QUIET WEEK, WITH NERVOUS UNDERTONES. ACTIVITY CENTERED IN THE DM/DOLLAR RATE BUT THE POUND HELD ITS OWN AGAINST BOTH. UNCERTAINTIES IN THE U.K. LABOR FRONT AFFECTED GILTS RATHER THAN THE FOREIGN EXCHANGE MARKET, WHERE THERE WAS NOT MUCH POSITION TAKING.

5. EXCHANGE RATE AND GOLD EFFECTIVE
EXCHANGE RATE
EXCHANGE (DEC. 1971 GOLD
DATE RATE (\$) EQUALS 100) (\$)

1/25 1.9525 66.4 177-3/
1/26 1.9525 JTS,0.**?4)"1&FT HJBESXRL3#2; 1/27

1.9475 66.5 176-3/
1/30 1.9475 66.5 175-1/
1/31 1.9500 66.5 175-7/
CHANGE 1/24-1/31 UP 0.0030 UP 0.2 DOWN 1/

6. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/25	0.02	0.30	0.71
1/26	0.05	0.40	0.65
1/27	0.00	0.27	0.50
1/30	0.02	0.25	0.47
1/31	0.05	0.25	0.45

CHANGE 1/14-1/31 DOWN 0.03 DOWN 0.10 DOWN 0.26
(ALL FIGURES IN CENTS)

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SOE-02 DOEE-00 SSO-00 INT-05 OES-07 /155 W
-----118336 011829Z /47

P R 011744Z FEB 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 2682
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
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7. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/25	6-5/16	6-5/32	6-11/32
1/26	6-11/32	6-9/32	6-13/32
1/27CVBBBH LREVVTOE HFC			
LTVBUUXEW 6			
1/30	6-11/32	6-9/32	6-37/64
1/31	6-11/32	6-1/4	6-9/16
CHANGE 1/24-1/31 UP 5/64 UP 3/16 UP 7/16			

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8. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON

GOVERNMENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
1/25	10.28	11.46	11.51
1/26	10.42	11.56	11.60
1/27	10.38	11.61	11.67
1/30	10.52	11.68	11.73
1/31	10.61	11.72	11.75
CHANGE 1/24-1/31 UP 0.30 UP 0.22 UP 0.20			

9. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTH
1/24	7-5/8	7-1/4	7-5/8
1/25	7-1/8	7-1/2	7-3/4
1/26	7-1/8	7-1/2	7-3/4
1/30	7-1/8	7-1/2	7-7/8
1/31	7-1/8	7-1/2	7-3/4
CHANGE 1/14-1/31 UNCHANGED UP 1/8 UP 1/8			

10. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

DATE	
1/25	- 31/32
1/26	- 1-7/32
1/27	- 1-3/32
1/30	- 1
3/31	- 1

CHANGE 1/24-1/31

3/16

11. THE MINIMUM LENDING RATE (MLR) REMAINED 6-1/2 PERCENT
THE AVERAGE TREASURY BILL RATE AT FRIDAY'S AUCTION FELL
0.0055 PERCENT TO 5.7692 PERCENT, AS 814.07 MILLION
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POUNDS IN BIDS WERE RECEIVED FOR THE 300 MILLION POUNDS
OF BILLS OFFERED. THIS WEEK AN ADDITIONAL 300 MILLION
POUNDS WILL BE OFFERED REPLACING MATURITIES OF 450 MIL-
LION POUNDS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: ALSO FOR USOECD AND USMTN
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780048-0645
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197802107/aaaadmks.tel
Line Count: 349
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 406e08ce-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
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Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14 feb 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3444401
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD JAN. 25 - 31 SUMMARY: A QUIET WEEK IN BRITAIN. GILTS DECLINE SLOWLY
UNCLASSIFIED
TAGS: ECON, UK
To: STATE TRSY MULTIPLE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/406e08ce-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
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